

IRAS e-Tax Guide

GST Guide for the Freight Forwarding Industry (4th Edition)



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1 Overview

1.1 This e-Tax Guide is designed to explain the impact of GST on the freight forwarding industry.

1.2 What is GST?

Goods and Services Tax (GST) which was implemented on 1 Apr 1994 is a tax on:

- (a) all supplies of goods and services made in Singapore by a taxable person in the course or furtherance of his business;
- (b) the importation of goods into Singapore.

1.3 Who is liable to tax?

A person (which includes a company) who makes or intends to make a taxable supply of goods and services that amounts to a total turnover of more than \$1 million is a taxable person. He has to account for GST at 7% on his sales.

1.4 What is zero-rating?

Zero-rating means applying a tax rate of zero percent (0% GST) on your sales. You can however, claim back the GST that you paid on your business purchases, subject to the normal input tax claims conditions.

Zero-rating applies to:

- (i) goods that are exported;
- (ii) international services.

Zero-rating will be further explained in the later pages.

2 Agents

For GST purposes, it is very important to ascertain if you are an agent or otherwise.

An agent is someone who acts on behalf of his principal in arranging for the supplies of goods or services.

Some traders make supplies in their own name and call themselves agents. For example, a car dealer sells a certain German brand of a car in Singapore. He sells the car in his own company name. He may call himself the agent of the German car company, but for GST purposes, he trades on his own account and thus, cannot be considered an agent in the true sense of the word. GST will be charged on the sales that he makes.

For GST purposes, certain criteria must be met before one qualifies as an agent.

2.1 How do I know if I am an agent?

An agent/principal relationship exists if the agent agrees to act on behalf of the principal on the particular transaction.

The following conditions must be satisfied:-

- (i) It must be clear that the agent is arranging a transaction for the principal, rather than trading on his own account.
- (iii) The agent must never be the owner of the goods bought or sold for the principal.
- (iv) The agent must not alter the nature or value of any of the supplies made between the principal and third parties.

If you satisfy the above conditions and have a letter by the principal showing that he has authorised you to be his agent, then you can be considered as an agent.

2.2 Having ascertained that I am an agent, how do I calculate my turnover?

Your turnover includes:

- the value of services to the principal (i.e. your commission charges)
- the value of taxable supplies that you make in your own name

It excludes the value of supplies arranged for the principal.

2.3 I am a forwarding agent for local importers. I pay GST on the goods on behalf of the importer when I clear the goods from Singapore Customs. Can I claim the GST as my input tax?

No. If for any reason you decide to pay the GST on behalf of the importer, it is seen as a commercial arrangement between you and your principal. Payment of GST in this circumstance does not entitle you to make any claim on the GST paid from IRAS because the goods are not imported by you. GST on imports is the importer's input tax and for him to reclaim.

Although Singapore Customs may deal with agents in relation to the importation and clearance of the goods, it is the importer's responsibility to ensure that the goods are properly declared and to pay the GST and any Customs Duty due. Only the importer can, subject to the normal rules, reclaim any GST paid as input tax.

2.4 What happens if the importer fails to reimburse me the import GST or goes into liquidation without reimbursing me?

It is a commercial arrangement between you and the importer if you choose to pay import GST on behalf of the importer. Hence, you are not entitled to make any claim on the GST paid from IRAS or Singapore Customs.

However, with effect from 1 Nov 2007, a GST-registered freight forwarder can make an application to the Comptroller of GST for remission of tax for the GST incurred on behalf of his client. This is limited to the amount of GST that he cannot recover from his client, under specific scenario where the criteria and conditions are met.

The GST-registered freight forwarder who wishes to seek such remission must first satisfy the following criteria:

- (i) The GST must be paid by the freight forwarder on or after 1 Nov 2007 in respect of goods imported by him on behalf of the importer (includes non GST-registered importer).

- (ii) The freight forwarder has re-exported the imported goods unused from Singapore.

A GST registered freight forwarder who satisfies the criteria can make an application to the Comptroller of GST for remission of tax under section 89(1) of the GST Act. The application should be made by completing the form “Application for Remission under S89 of the GST Act for refund of import GST paid on behalf of an importer”, which can be downloaded from www.iras.gov.sg.

2.5 I am a freight forwarding agent who clears goods from Singapore Customs on behalf of my overseas principal (non-GST registered). I also supply the goods on behalf of my principal. Who has to account for GST at the point of importation?

If you are importing and supplying the goods on behalf of an overseas principal, the goods will be treated as imported and supplied by you. You will then have to pay GST to Singapore Customs. You must charge output tax on the sales and may also claim back the tax paid to Singapore Customs as your input tax.

2.6 On the instruction of my overseas principal (non-GST registered), I released some of the goods to a local buyer and exported the rest of it. How do I account for GST?

- (i) For goods sold locally, you are to collect the GST on behalf of your principal and then account it to the Comptroller of GST.
- (ii) For goods exported, they are zero-rated supply, i.e. you do not need to collect GST.

3 Imports

3.1 How is GST calculated on imports?

GST is charged on the CIF value (Cost, Insurance and Freight) of the goods.

If goods are imported at a price wholly payable in money on the transfer of the goods, the value is:

- (a) that price;
- (b) all taxes, duties and other charges levied either outside or, by reason of importation, within Singapore (except GST); and

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- (c) all costs by way of commission, packing, transport and insurance and all other costs, charges and expenses incidental to the sale and the delivery of the goods up to the port or place of importation.

Example :

Price of Goods (FOB)	\$ 10,000.00
Freight & Insurance	<u>2,000.00</u>
	12,000.00
Handling Charge (1%)	<u>120.00</u>
	12,120.00
Customs Duty (5%)	<u>606.00</u>
	<u>\$12,726.00</u>
GST (7%)	<u>\$ 890.82</u>

3.2 What if there is no monetary value readily attributable to the goods imported?

Where there is no monetary value readily attributable to the imports, the value of the goods will be their open market value as determined in accordance with the valuation for customs purposes, including all taxes, duties, charges and costs.

3.3 What if the imported goods are invoiced in foreign currency?

Imported goods expressed in a foreign currency must be converted into Singapore dollars using the rates of exchange published fortnightly by Singapore Customs. You can get details of period rates of exchange for foreign currencies by dialing the Singapore Customs Tele-Info Plus on (65) 6355 2000. You should use the exchange rate prevailing at the time of submission of the payment declaration.

3.4 How do I value my goods if they are imported on Free On Board (FOB) basis?

If the goods are imported on FOB basis, you will have to include the freight, insurance and other incidental charges to arrive at the CIF value. Where the freight and/or insurance charges are not available at the time of importation, a flat rate as determined by Singapore Customs will be applied.

3.5 Are containers and pallets subject to GST at the point of importation?

No. Relief will be granted on all incoming freight containers, pallets and packings used, or to be used, as external or internal coverings for goods. Relief will be granted on the condition that the containers, pallets and packings are intended to be re-exported as soon as possible.

If the pallets/containers are sold locally, GST must be charged.

3.6 At what point in time do I have to pay GST?

GST must be paid at the time of importation before you remove the goods from the customs control. You are encouraged to pay your GST through inter-bank GIRO arrangements. Upon approval of your GST payment declaration, through the Singapore Customs TradeNet system, the tax payable would be automatically deducted from your bank account. Otherwise, you would have to pay the GST at an authorised bank before clearing the goods from Singapore Customs.

For imported dutiable goods, the GST should be paid at the same time when the Customs Duty is paid.

3.7 Are imported goods stored in the Free Trade Zones subject to GST?

If imported goods are deposited in a Free Trade Zone (FTZ), the GST due at the point of importation is suspended. GST will only be chargeable when the goods are removed from a free trade zone into the Customs territory for local consumption.

GST is not payable on any supplies made in the FTZ if the goods supplied are meant for transshipment or re-export. However, GST is payable on any supplies made in the FTZ if the goods supplied are for use or consumption within the zone.

3.8 What is the evidence for input tax paid to Singapore Customs?

The evidence for input tax payment for imported goods should normally be the approved copy of the GST payment permit.

As an agent responsible for clearing goods from the Customs control, you should ensure that the documents are sent to your principal as soon as possible. Without them, your principal will not be able to reclaim the GST as input tax.

3.9 Is transshipment of goods subject to GST?

GST is not payable on goods meant for transshipment. A transshipment permit is required to be taken out to cover the movement of the said goods except that no permit is required for non-dutiable goods which are transhipped within the same gateway.

4 International Services

A list of international services which are relevant to the freight forwarding industry is found in Appendix 1.

4.1 I am a freight forwarding agent. I arrange for the shipment of my client's goods from Singapore to overseas. Do I have to charge my client GST?

In such commercial arrangements, there are two principal transactions that could be zero-rated. The first transaction is between you and the shipping company/airlines and the second, between you and your client, the exporter.

As shipping of goods from Singapore to overseas is part of international services, the shipping company will charge you GST at the rate of zero percent. There should therefore not be any increment in freight cost due to GST.

As you are responsible for forwarding the goods for the exporter from Singapore to overseas, you may also charge your client at zero percent GST.

Zero-rating is also granted if you are transporting or arranging the transport of goods:

- from a place outside Singapore to a place in Singapore
- from a place outside Singapore to a place outside Singapore

From 1 July 2010, the zero-rating relief of international transportation or the arranging of the international transportation of passengers and goods will be expanded to include transportation services to or from Singapore into international waters. This means that zero-rating will apply even if the ship does not call on a foreign port outside of Singapore.

Accordingly, if you provide transportations services or the arranging of transportation services

- from a place in Singapore to international waters
- from international waters to a place in Singapore

your services will qualify for zero-rating.

For more information on this, please refer to the e-Tax guide “GST Guide for the Marine Industry - 2010 Budget Changes”.

4.2 In addition to shipping goods from Singapore to overseas, I also transport the goods from the warehouse to the port/airport. Can I zero-rate GST on the land transportation as well?

Yes. If you provide both the domestic transport of goods within Singapore as well as the international freight, then the entire supply (including the domestic transport) will be zero-rated. You need not physically perform both the services but you must contractually supply both the domestic transport and the international transport in one contract.

The supplies of *ancillary transport activities* are zero-rated if they are supplied as part of international transportation of goods by the same supplier.

From 1 July 2010, the zero-rating of supplies of ancillary transport activities as part of international transportation of goods by the same supplier will be extended to cover international transportation services to or from Singapore into international waters. See paragraph 4.1 above.

4.3 What if I sub-contract out the trucking services, that is, the transport from the warehouse to the port/airport. Would it still be zero-rated?

Your supply to the exporter would still be zero-rated if you are providing both the domestic and international freight in one contract to the exporter.

Your sub-contractor will be charging you GST, if he is a taxable trader, for which you are allowed to claim input tax credit.

For example:

The value of your services to your customer is

1) Shipping/airfreight	\$ 1,000
2) Handling	\$ 500
3) Documentation	\$ 50
4) Trucking	\$ 400
	<hr/>
	\$ 1,950

If you had sub-contracted out the trucking service, he would charge you \$428 i.e. \$400 + 7% GST for his services. As a taxable trader you will be

allowed a refund on the input tax paid. Your supply valued at \$1950, to the exporter, will still be zero-rated.

4.4 I am a local freight forwarding agent. My service comprises only of transporting goods from my client's warehouse to the port/airport. Is my service subject to GST?

If your client is a local person, and you are merely providing local transportation, that is, transporting the goods from your client's warehouse to the port or vice versa, then your service is standard rated as it is considered as a domestic supply of service.

You are only allowed to zero-rate your handling/storage/transport services in connection with the movement of the goods to the extent that it is provided to an overseas person as follows:

- 1) To the place at which they have been imported (from the entry point in Singapore to the first destination in Singapore); or
- 2) From the place at which the goods are to be exported (from the place at which the last supply took place in Singapore to the exit point).

4.5 In carrying out my duties as a freight forwarder, I incur port charges in respect of:

- (i) ships eg. wharfage charges
- (ii) cargo eg. container handling charges.

Are these charges subject to GST?

Services provided within any **Free Trade Zone** or the **designated area of a port and airport** in respect of:

- (i) the handling of ships/aircrafts;
- (ii) the handling or storage of goods carried in a ship or aircraft;

will be zero-rated.

(Please refer to the Appendix 2 for a list of handling activities that are zero-rated).

The designated areas of the port include:

Jurong Marine Base
Loyang Offshore Supply Base
Singapore Cruise Centre
Jurong Fishery Port

Senoko Fishery Port
Changi Ferry Terminal
Tuas Jetty For Explosives And Dangerous Goods
Barter Trade Control Area
Harbour Branch Headquarters and
Any area declared to be a Port within the meaning of the Maritime and Port Authority of Singapore Act

The designated areas of the airport are:

Changi Airport
Paya Lebar Airport
Seletar Airport
Tengah Air Base

5 General Information

5.1 When I give my client trade discount, what is the value of my supply?

The value of supply is the price of the goods reduced by the discount. It does not matter whether the client ultimately takes up the discount or otherwise.

For example, if you give your client payment terms 5/10, n30 (i.e. a five percent discount on the price of the goods if the payment is made within 10 days, otherwise, the full amount to be paid within 30 days) and the price of the good is \$1000. The value of supply is \$950. It does not matter whether your client is able to take up the offer to pay you within 10 days.

6 Contact Information

For enquiries on this e-Tax Guide, please contact:

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APPENDIX 1 - List of international services for the freight forwarding industry

Section 21 of the GST Act provides for zero-rating of exports and international services.

The following is an extract from the GST Act which lists the international services relevant to the freight forwarding industry that will be zero-rated. Specifically, it lists the zero-rating provisions under Section 21(3)(a), (b), (c), (f), (g), (j), (k) and (l).

Please note that this list of international services does not reflect the changes explained in paragraphs 4.1 and 4.2. For information on the changes, please refer to the e-Tax guide "GST Guide for the Marine Industry - 2010 Budget Changes".

International Services

Section 21(3):

A supply of services shall be treated as a supply of international services where the services or the supply are for the time being of any of the following descriptions:

- (a) services (not being ancillary transport activities such as loading, unloading and handling) comprising the transport of passengers or goods:
 - (i) from a place outside Singapore to another place outside Singapore;
 - (ii) from a place in Singapore to a place outside Singapore; or
 - (iii) from a place outside Singapore to a place in Singapore;
- (b) services (including any ancillary transport activities such as loading, unloading and handling) comprising the transport of goods from a place in Singapore to another place in Singapore to the extent that those services are supplied by the same supplier as part of the supply of services to which paragraph (a) (ii) or (iii) applies;
- (c) services (other than the letting on hire of any means of transport) comprising the insuring or the arranging of the insurance or the arranging of the transport of passengers or goods to which any provision of paragraphs (a) and (b) applies;
- (f) services supplied directly in connection with goods situated outside Singapore when the services are performed;
- (g) services supplied directly in connection with goods for export outside Singapore and supplied to a person who belongs in a country other than Singapore. at the time the services are performed;

- (j) services supplied-
 - (i) under a contract with a person who belongs in a country outside Singapore; and

which directly benefit a person who belongs in a country other than Singapore and who is outside Singapore at the time the services are performed.

not being services which are supplied directly in connection with –
 - (A) land or any improvement thereto situated inside Singapore; or
 - (B) goods situated inside Singapore at the time the services are performed. other than goods referred to in paragraph (g);

- (k) prescribed services supplied
 - (i) under a contract with a person wholly in his business capacity (and not in his private or personal capacity) and who in that capacity belongs in a country outside Singapore; and
 - (ii) which directly benefits a person wholly in his business capacity (and not in his private or personal capacity) and who in that capacity belongs in a country other than Singapore;

The prescribed services are the handling or storage of goods at or their transport to or from the place at which they are to be exported or have been imported or of the handling or storage of such goods in connection with such transport.

- (l) prescribed services in connection with –
 - (i) the handling of **ships** or aircraft; or
 - (ii) the handling or storage of goods carried in a ship or aircraft;

The prescribed services are the services supplied within any free trade zone or designated area of a port, terminal or airport for —

- (a) the handling of ships or aircraft; or
- (b) the handling or storage of goods carried in any ship or aircraft.

Ship is defined in section 21(4)(a):

"ship" means a ship (including an oil rig) which is not designed or adapted for use for recreation or pleasure and excludes any vessel licensed under the

Maritime and Port Authority of Singapore Act as a passenger harbour craft or pleasure craft.

"aircraft" means —

- (i) any aircraft which is not used or intended to be used for recreation or pleasure; or
- (ii) any aircraft used or intended to be used for recreation or pleasure if it is wholly used or intended to be wholly used for travel —
 - (A) from a place outside Singapore to another place outside Singapore;
 - (B) from a place in Singapore to a place outside Singapore; or
 - (C) from a place outside Singapore to a place in Singapore;

APPENDIX 2 - List of handling activities that are zero-rated

Ship handling activities include the following:

- port and harbour dues
- dock and berth charges
- conservancy charges (including the provision of local lights, buoys and beacons)
- mooring/wharfage charges demurrage (where this is a charge for failing to load or discharge a ship within specified time)
- security and fire services

Aircraft handling activities include the following:

- aircraft landing, parking or housing fees
- aircraft compass swinging fees
- apron services
- airport navigation service charges security and fire services

Goods handling services include the following:

- transport ancillary to the handling of ships/aircrafts or their cargo (including the movement of goods to or from a ship/aircraft)
- stevedoring and portorage
- loading, unloading, reloading, stowing, securing and shifting cargo for the use of cranes and weighing machines together with an operator. (If you provide a crane without an operator your supply is standard rated.)
- sorting, opening for inspection, repairing and making good weighing and taring, taping and sealing, erasing and re-marking, labeling and re-numbering, tallying, checking, sampling, measuring or gauging of goods
- survey of cargo (including damaged cargo)
- cargo security services
- presenting goods for Customs examination
- preparing or amending Customs entries
- preparing or amending bills of lading, air waybills, and certificates of shipment
- container handling for which a box charge is made
- transit rate, basic rate, consolidated rate and stevedoring rate, if they relate **solely** to goods handling at FTZ or designated areas